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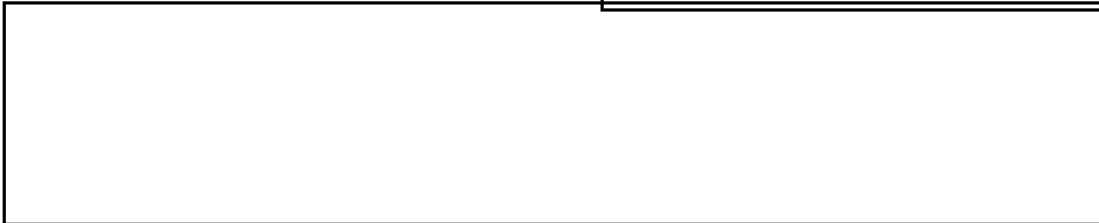
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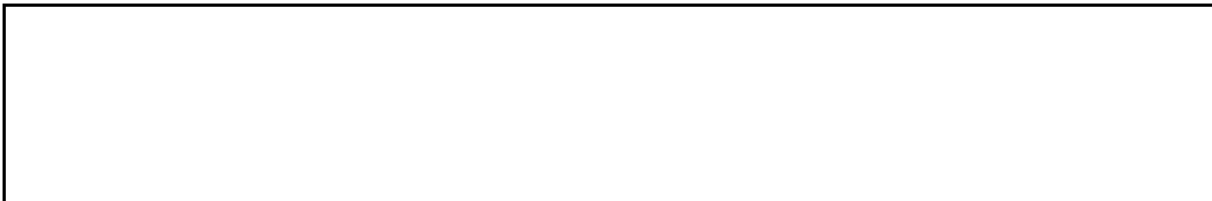
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1. EGYPT PLANS INTERNATIONAL CONFERENCE IF
CANAL MEMORANDUM IS REJECTED

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Ali Sabri, Nasr's chief political adviser, stated on 27 March that if Egypt's memorandum on the Suez Canal meets an unfavorable response

from a majority of the nations who received it, the only alternative will be to call an international conference of interested nations. These nations presumably would be chosen and invited by Egypt. Sabri said the Egyptian government anticipated an unfavorable reaction from Britain, and especially from France, but that it had no intention of calling a conference merely to satisfy one or two "malcontents."

Sabri said the memorandum as it stands is the product of Nasr's talks with UN Secretary General Hammarskjold and also reflects some Indian ideas. The Egyptians expect comments from the recipients--the United States, the USSR, India, Yugoslavia, Syria, Jordan and Saudi Arabia--and are willing to modify the memorandum to meet "reasonable" comments "compatible with Egyptian sovereignty."

In emphasizing Egypt's intention to keep politics out of the canal and to run it as a business, Sabri stated that Israeli ships would be the exception since Israeli passage of the canal would be tantamount to political suicide for the Nasr regime. He said any decision by the International Court of Justice favoring Israeli transit of the canal would simply be rejected.

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4. MAKARIOS' RELEASE POSSIBLE PRELUDE TO NEW CYPRUS NEGOTIATIONS

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[REDACTED]

London's release of Archbishop Makarios from exile in the Seychelles, announced on 28 March, will probably result in new negotiations with him over Cyprus' future. A Colonial Office official said on 27 March, however, that the British are not disposed to start new negotiations immediately, partly because of Turkish opposition, and will not allow Makarios to return to Cyprus. [REDACTED]

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[REDACTED]

While Britain has published a statement from Makarios which includes a demand for direct conversations between the British government and the Cypriots, Colonial Secretary Lennox-Boyd prefers to seek the "good offices" of NATO first, but indicated talks with Makarios and other Cypriots would be considered later. Many officials believe Makarios is the only leader capable of obtaining any Cypriot co-operation on the Radcliffe constitution. Pressure for early talks with Makarios would be increased if EOKA leader Grivas accepts the safe-conduct to leave Cyprus offered by London on 28 March. Any negotiations would presumably be based on the Radcliffe constitutional proposals for limited self-government.

If Makarios goes to Athens, however, which he is now free to do, the Greek government will be seriously embarrassed and the attendant propaganda will retard progress toward any solution.

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7. HUNGARY RETURNING TO STALINISM

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Hungarian premier Kadar's speech in Moscow on 27 March indicates an unabashed return to Stalinism and official adulation of the USSR in Hungary. Kadar said that some policies in Hungary during the Stalin-Rakosi era--particularly the regime's treatment of the bourgeoisie--were too lenient, and that Rakosi's mistakes were overshadowed by his "lasting achievements."

Kadar and Soviet premier Bulganin raised the possibility of a Stalinist-type show trial by their vigorous denunciations of Imre Nagy for treason to state and party. They also charged Yugoslavia with involvement in the Hungarian revolution. Bulganin claimed to have evidence that Nagy was plotting against the state long before October 1956. Bulganin's charge that Yugoslav leaders gave Nagy "practical support" above and beyond propaganda and moral aid is the first such Soviet attack, and will probably provoke a violent Yugoslav response.

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8. USSR PROPOSES \$200,000,000 BARTER ARRANGEMENT
TO SPAIN

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The Spanish cabinet has under consideration a Soviet proposal for a \$200,000,000 barter arrangement, according to the Spanish Foreign Ministry. The proposal provides for the exchange of Spanish goods for Soviet tractors and machinery.

The USSR has made numerous other overtures in recent months for a restoration of diplomatic and trade relations with Spain. In view of Spain's current economic difficulties, the Soviet offer may prove hard to resist. The Spanish may regard it as an excellent lever to speed up US action on Madrid's request for \$25,000,000 to \$30,000,000 worth of industrial raw materials and machinery from the United States. It is unlikely, however, that the Spanish government would agree to any formal diplomatic or economic relationship which does not satisfy Spain's claims to the \$500,000,000 in gold which the Spanish Republican government sent to Moscow during the Civil War.

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9. SERIOUS TROUBLE FORECAST FOR FRANCO REGIME

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Retiring Spanish foreign minister Martin Artajo told American chargé Byington on 26 March that he felt there was "trouble in store" for the government unless it could achieve a greater degree of liberalization and get closer to the people.

Byington believes that the critical economic situation may worsen. He points out, however, that Martin Artajo's decision to remain in Madrid rather than accept an ambassadorial post abroad indicates that he does not expect any major political upheaval.

Comment

The regime's failure to stem the mounting inflationary threat has aroused increasing concern throughout the country. There is growing worker unrest over the rising cost of living and continued student hostility to restrictions on freedom of thought and expression. The Church has also shown signs of wishing to dissociate itself from a government that is becoming increasingly unpopular, and military leaders fear the possible results of Franco's refusal to arrange for an orderly succession of powers.



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ANNEX

Watch Report 347, 28 March
of the
Intelligence Advisory Committee

Conclusions on Indications of Hostilities

On the basis of findings by its Watch Committee, the
Intelligence Advisory Committee concludes that:

- A. No Sino-Soviet bloc country intends to initiate hostilities against the continental US or its possessions in the immediate future.
- B. No Sino-Soviet bloc country intends to initiate hostilities against US forces abroad, US allies or areas peripheral to the Orbit in the immediate future.
- C. A deliberate initiation of hostilities against Israel by the Arab states is improbable in the immediate future. Israel, though apparently still relying on diplomatic measures, may at any time renew hostilities if faced with one or more provocations, such as an introduction of substantial Egyptian military forces into the Gaza strip, a renewal of extensive fedayeen raids, or an attempted denial of passage for Israeli shipping through the Straits of Tiran. Other unsettled issues and tensions in the Middle East, especially in Syria and Jordan, also constitute possibilities for violence.

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